

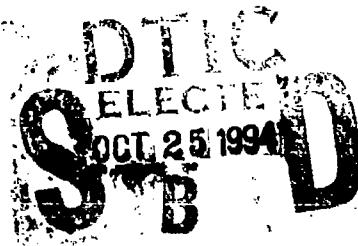
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IDA PAPER P-3013

PROSPECTS FOR THE RUSSIAN FEDERATION:
CENTER-REGIONAL RELATIONS

Susan L. Clark
David R. Graham



September 1994

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INSTITUTE FOR DEFENSE ANALYSES
IDA Independent Research Program

PREFACE

This paper has been prepared by the Institute for Defense Analyses under funding from the Independent Research Program. It is one of a series of IDA-funded studies exploring the implications of the rapid and unexpected changes in the former Soviet Union over the last several years. This study examines a variety of political, economic, and military-security factors that will shape Russia's future orientation and structure as a nation state. Using these factors, the authors evaluate the likelihood of alternative paths for the development of the Russian Federation: it may reassert control over parts of the former Soviet Union, it may follow the USSR's own fate and disintegrate into several new countries, or it may largely follow its current course of working out deals between Moscow and other parts of Russia on a case-by-case basis. The paper then examines the implications of such future developments for Western economic and security interests.

The authors gratefully acknowledge those colleagues and friends who offered comments on an earlier draft, and wish to thank especially the official reviewers of this paper, Dr. Elizabeth Teague, a specialist on Russian domestic affairs, and Dr. Caroline Ziemke, Research Staff Member at the Institute for Defense Analyses. We would also like to thank Jason Rosenfeld for his assistance in some of the research and preparation of graphics for this paper.

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SUMMARY

It is by no means certain that the Russian Federation will exist in the same territorial space 5 or 10 years from now that it occupies today. Recent trends—such as widespread elite support for Russia's "peacekeeping" activities—suggest that Russia might try to "regain" some of the territories it claimed historically but lost with the break-up of the Soviet Union. Such an imperialist policy would be a distinct possibility should a hard-line nationalist (embodying the ideas, if not the style, of Vladimir Zhirinovsky) take the reins of power; it would focus on reconsolidating power in Moscow, leaving little room for maneuver for those regions and republics that are seeking greater autonomy. Alternatively, Moscow's failure to accommodate regional interests and demands for greater autonomy within the Russian Federation could shape its future differently; that is, Russia as we know it today could fracture into several different countries. While Moscow has displayed greater willingness of late to accommodate some of these regional interests, the fact that the tax collecting system is abysmally ineffective and that the military is establishing closer relations with local authorities are but two examples of certain disintegrative tendencies already in evidence. Of course, these two scenarios are opposite extremes, and Russia's future probably lies somewhere between. To wit, Russia could continue its current efforts to preserve the Russian Federation by reaching ad hoc bilateral agreements between Moscow and individual administrative areas of Russia.

In any case, Russia's future orientation and structure will be shaped by a combination of political, economic, and military-security factors. This paper examines the main issues in each of these areas in detail. Russia will chart its own future course, with little influence from the Western community of nations. What we must be prepared for is Russia's evolution in any variety of configurations, not just the one(s) we would prefer. To that end, the United States (and other nations) should adopt a more regionally oriented view of Russian developments, and seek to establish working relations with a host of local officials throughout the country—as well as those in Moscow's central administration—from across the political spectrum. Such a policy of "flexible engagement" will best position the West to cope with the volatile political, economic, and military forces shaping the future of the Russian Federation.

PROSPECTS FOR THE RUSSIAN FEDERATION: CENTER-REGIONAL RELATIONS

A. INTRODUCTION

The Russian Federation today faces the unenviable tasks of defining its national interests and assessing whether its current configuration will endure in the wake of the collapse of the communist, centralized system. It is not yet clear whether the components of today's huge Russian Federation—its 89 republics, oblasts, and krais—will find enough common ground to remain together as one nation, finding adequate common economic interests, shared security concerns, similar political orientations, and shared history, language, and culture. Will Russia follow the Soviet Union's example and fracture into several smaller countries, or will Moscow reassert authoritarian, centralized control? Or, indeed, will Russia largely maintain the status quo, making individual arrangements between Moscow and various components of the Federation as necessary? At the present time, the most probable alternative is the latter: Russia will remain intact, progressing often sporadically and unevenly—but peacefully—toward some kind of federation (or confederation).

The changing fortune of these three alternative futures over the past 2 years has been notable and underscores how quickly prospects can change. These shifts are attributable at least in part to President Boris Yeltsin's apparent lack of a blueprint for the future of his country; instead, his focus has been on adapting to variable political winds whenever necessary in order to remain in power. To be fair, the power he inherited has not always been adequate to meet the needs of the day. Thus, 2 years ago, much evidence pointed to the likelihood of some splintering within the Russian Federation. Thinking along these lines was particularly encouraged by the more autonomous-minded segments of the country (such as Tatarstan, Chechnya, and Bashkortostan) as well as areas that believed either that their interests were not well-represented in Moscow (most notably, important parts of resource-rich Siberia and the Far East) or that brighter future economic prospects lay in closer, direct contacts with the international community (for example, Nizhny Novgorod). Today, while regionalization within Russia is certainly still occurring, the possibility of several new states emerging on its territory is much more remote in light

of several developments, including: the breathing room the Yeltsin leadership obtained for itself with the 1992 Federation Treaty; Yeltsin's victory over the old parliament in October 1993; the adoption of the new constitution, which created a strong presidency and helped stabilize relations between Moscow and the rest of Russia; and fear of the instability such fracturing would cause.

The December 1993 elections and ultranationalist Vladimir Zhirinovsky's strong showing lent credence, in turn, to the idea of an authoritarian regime assuming control. While Zhirinovsky has since greatly discredited himself through a host of inflammatory and ridiculous statements, support for many of the ideas he embodies (including firmer centralized control, continued subsidies to factories and agriculture, social protection measures, and reasserting Russian pride) remains strong in many areas of Russia, above all in its rusting industrial centers, but also among many of Russia's political elite who embrace the idea of reclaiming some of the Soviet empire. Calls to protect some 25 million Russians living outside the Russian Federation have frequently served as a rallying point for those wanting to interfere in the other states of the former Soviet Union. Still, the probability of this alternative is not high at present, in part because it would require the cohesive participation of the Russian military. For reasons articulated later, this is presently unlikely.

Of course, much of Russia's future depends on the evolution of relations between the center (Moscow) and the rest of the country.¹ At the beginning of 1994, Peter Reddaway perhaps best encapsulated the near-term outlook for Russia: "The likely prospect for 1994 and 1995 is of increasing powerlessness and instability of the center, with Russians struggling to survive in an increasingly regional framework."² Indeed, the Yeltsin leadership appears to have accepted (for now) that it must allow a greater devolution of power to local authorities, which may ultimately enable the Russian Federation to remain in one piece.

In some respects, the Russian Federation is structured like the former Soviet Union. For example, just as many borders of the Soviet republics were drawn arbitrarily (thereby dividing ethnic groups between states), so too were many of the borders within

¹ Throughout this paper, we talk of center-regional relations, by which we mean relations between Moscow and all the other components of the Russian Federation: the republics, oblasts (regions), and krais (districts).

² Peter Reddaway, "Visits to a Maelstrom," *New York Times*, 10 January 1994.

the Russian Federation.³ On the other hand, unlike the Soviet Union, Russia has the distinct advantage of being more ethnically homogenous: ethnic Russians comprise some 80 percent of the Russian Federation's population, whereas they were only half of the USSR's population. This homogeneity does not, however, categorically ensure Russia's territorial integrity.⁴ In fact, the principal divisions that have emerged within the Russian Federation over the last 3 years have been geographic and economic, not ethnic, in character. Thus, the main challenge facing Russian leaders today is to find a proper balance of power and authority between Moscow and the other components of the country. (Figure 1 provides a map depicting these 89 components, which make up the administrative composition of the Russian Federation.⁵) If Moscow retreats from its current position of devolving some of its power, and ultimately proves unwilling or unable to compromise on regional rights (either by retracting existing agreements or refusing to enter into additional ones in the future), the pressures of separatism—particularly for economic reasons—will grow. Finally, the possibility of some fracturing along ethnic lines cannot be completely ruled out. While the current leadership in the Republics of Tatarstan and Tyva, for example, have supported remaining within the Russian Federation and have emphasized economic rather than ethnic priorities, separatist tendencies could well come to the fore should nationalism flare in these or other regions in the future and Moscow's accommodation with them prove inadequate, despite the lack of viable economic prospects for their survival as independent states. As Mark Galeotti has argued, "Surrounded by Russia, few of these ethnic concentrations can be seen as viable nations but . . . as Yugoslavia shows, rational calculations rarely play a part when nationalism is awoken."⁶

To assess the prospects for the Russian Federation's future, this paper examines three key variables that will shape its cohesion or disunity: political, economic, and security issues. With this assessment laying the foundation, we consider the likelihood of

³ Soviet leaders divided various ethnic groups quite deliberately, both in drawing the Soviet republic borders and in drawing borders within Russia. For instance, as M. Applegate notes in *Siberia and the Russian Far East* (Camberley, UK: Conflict Studies Research Center, Sandhurst, July 1994), the Buryats were divided among Buryatia, Chita Krai and Irkutsk Krai in order to reduce their cohesiveness. See p. 5.

⁴ The fact that millions of Russians live outside the borders of the Russian Federation (in other states of the FSU) could affect Russia's territorial configuration in the opposite way: the diaspora has been an important factor in the push for greater Russian assertiveness in relations with its neighbors, including in the form of military ("peacekeeping") interventions.

⁵ There have been several name changes since the creation of this map: Tuva is now called Tyva; Yakutia is also known as Sakha, and Gorno-Altai now calls itself the Altai Republic, as distinct from the Altai Krai.

⁶ Mark Galeotti, "Decline and Fall—Russia's Long Arm," *Jane's Intelligence Review*, November 1992, p. 482.

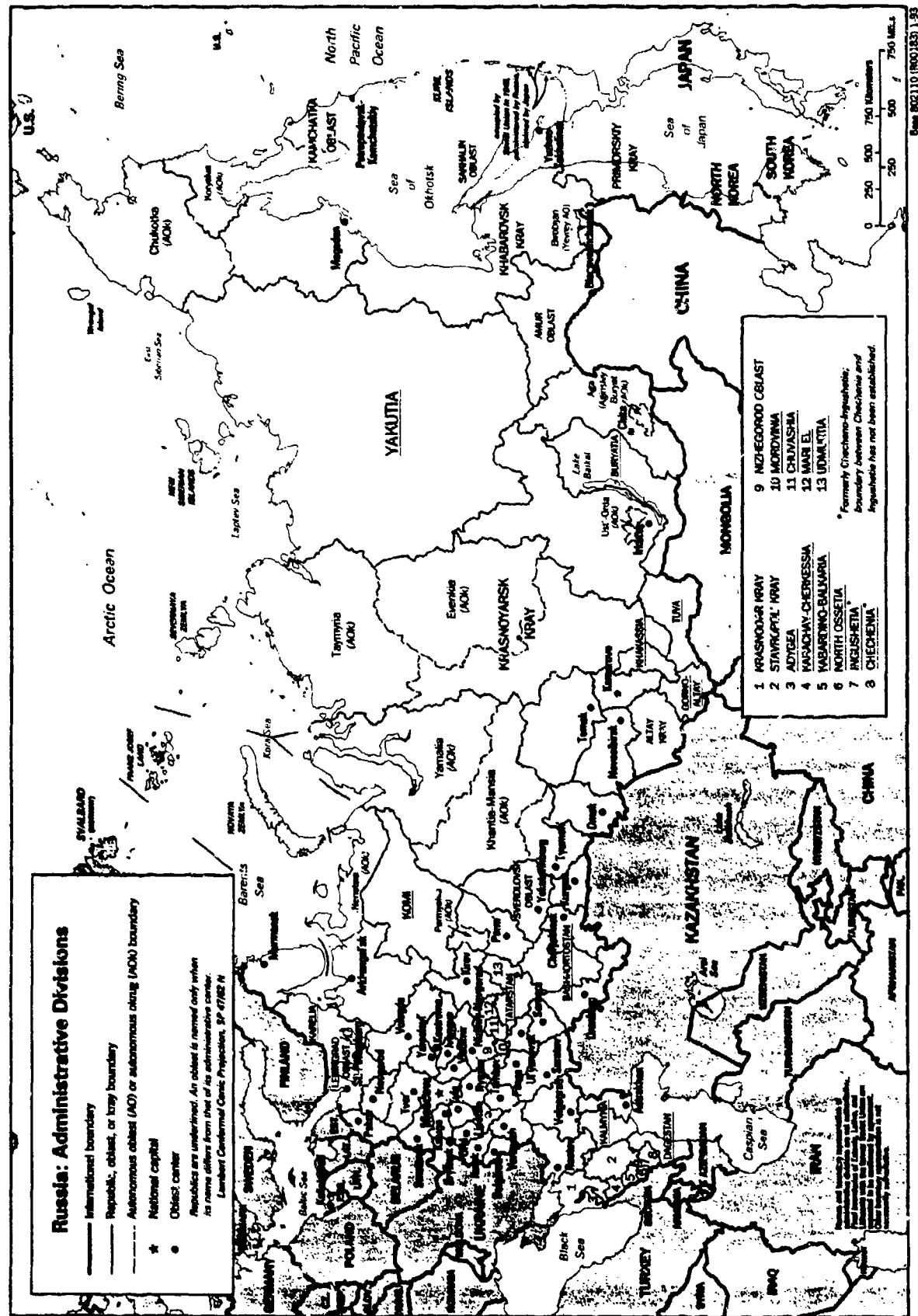


Figure 1. Russia Federation Administrative Divisions

three alternative scenarios for Russia's evolution and their implications for the West. The changes occurring in Russia today are being propelled by internal, not external, factors, so the ability of Western nations to help shape the outcome is quite limited. But what we can do is strive to be prepared for a range of possible outcomes—not just the one(s) we would prefer.

B. FACTORS AFFECTING THE FUTURE OF RUSSIA

1. Political Considerations

The fundamental political issue tearing at the heart of the Russian Federation today is the struggle by local authorities (within the republics, oblasts, and krais) for greater autonomy and a more equitable sharing of power with Moscow.⁷ Not surprisingly, the push for greater regional sovereignty has been strongest and most successful when the center has been weakest (often riven by its own internal rivalries, namely between the executive office and parliament). This shifting balance of power between Moscow and the rest of Russia has been a constant factor in Russian politics since the demise of the Soviet Union (and, indeed, even prior to December 1991). To note just the most perceptible of these shifts: in early 1992, with the culminating attempts to develop and sign a new Federation Treaty, Moscow appeared to have (re)asserted control over at least most of the country's constituent parts.⁸ Then, with the drafting of the new Russian constitution, by the summer of 1993, the balance seemed to have shifted toward the republics, oblasts and krais, as they obtained from Moscow recognition of their sovereignty and Yeltsin and the parliament continued their own struggle for power. Following the Moscow crisis of September–October 1993, however, Moscow appeared to regain the upper hand, as the sovereignty clause was deleted from the final version of the constitution, officially approved in December 1993. Nevertheless, future obedience to the federal constitution should not be assumed to be automatic throughout Russia, given that the referendum on it was not passed in every republic, oblast and krai, and that they have the right to have their own constitutions. A future crisis could call into question the constitution's applicability to those areas that did not approve it in December. In short, although Moscow has begun to

⁷ Within the context of this struggle for power, the most contentious issues are economic: the control of natural resources and land, setting economic priorities and policies, and paying taxes. We address the range of economic issues in the next section.

⁸ Even in this case, divisions at the federal level between the President and parliament allowed the republic and regional leaders some leverage in their negotiations. Chechnya, having declared its independence from the Russian Federation in 1991, and Tatarstan both refused to sign the Federation Treaty.

establish a more coherent federal structure—through the 1992 Federation Treaty and the 1993 Constitution—the Federation still continues to be held together by a series of bilateral treaties and agreements between Moscow and the constituent republics, oblasts, and krais.

Yeltsin's approach has been expedient, but it has created frictions among the constituent parts of Russia and may, in time, prove divisive. The concessions extracted to date from Moscow have hardly been applied universally throughout Russia. For example, Russia's republics have been given greater control over their natural resources and been allowed to pay less tax to Moscow than have the oblasts and krais. As a result, several of the latter have tried to unilaterally upgrade themselves to the status of republics in order to obtain these same rights; Sverdlovsk oblast, for example, proclaimed itself the Urals Republic. Moreover, there have also been some discussions (such as by ultranationalist Vladimir Zhirinovsky) about abolishing the ethnically based republics—a possibility that portends increased domestic conflict in Russia.⁹ In short, it should be expected that various local authorities will continue to maneuver to work their own best deal, which will result in continuing power struggles as long as rights are not equal throughout the Russian Federation.

Through individual "deals" with Moscow, some parts of Russia have achieved special treatment, for example, on paying taxes to the federal budget and controlling their resources (see the next section on economic factors), while others have signed bilateral treaties with Moscow (again, with a primary focus on economic issues). Thus far, the Republics of Tatarstan, Kabardino-Balkaria and Bashkortostan have actually signed such treaties, while negotiations are also under way with the exclave of Kaliningrad oblast; Moscow officials expect to conclude such agreements eventually with all the components of Russia.

The relatively limited experience to date indicates that a certain model has now been created, but that the specific contents of each agreement are likely to vary. Tatarstan, the first to undergo this process, negotiated 3 years before signing a treaty in February 1994 that describes it as a state united with the Russian Federation on the basis of their two constitutions and the treaty, but the agreement curbs much of the sovereignty Tatarstan previously claimed and even restricts how much oil the republic is allowed to produce each

⁹ The popularity of this idea has, admittedly, declined over the last year or two particularly because of its propensity to generate conflict, but it is still part of the ultranationalist rubric.

year.¹⁰ (In fact, Moscow's threat to shut off the pipeline to and from Tatarstan seemed to be the greatest single motivator for Tatarstan's willingness to agree to the terms of this treaty. Moscow can be expected to use such forms of leverage, including the centralized infrastructure system inherited from Soviet times, in future negotiations with other republics, oblasts, and krais.¹¹) In late May 1994, Bashkortostan reached agreement on a power-sharing treaty with Moscow, officially signed by Russian President Boris Yeltsin and Bashkortostan's President Murtaza Rakhimov in early August. Unlike Tatarstan, however, Bashkortostan is acknowledged as a constituent part of and sovereign state within the Russian Federation and has wide-ranging authority—including establishing its budget, land and natural resource ownership, handling foreign economic trade, concluding international treaties, drafting its tax policy, and creating its own legislative system. The treaty stipulates three types of powers: those that are exclusively Bashkortostan's (noted above); those that belong to the center (such as conducting foreign policy; setting federal policies and programs; deciding defense and security matters; and defending state borders); and those that are shared and coordinated jointly between Moscow and Bashkortostan (such as defending Bashkortostan's sovereignty and territorial integrity; granting citizenship; deciding budgetary, tax, and other financial issues; and observing ethnic minority and other human rights).¹²

With the increased importance of local officials and concomitant diminution of power in Moscow, one wonders whether cooperative efforts among some of Russia's republics, oblasts and krais (probably ones that are united by geography) will become viable. And, if so, will they become a threat to Moscow? The most obvious example of such regional cooperation to date is Siberian Accord, an association established in November 1990 to focus primarily on economic issues (although it has since emerged as a

¹⁰ Following the February 1994 signing, negotiations still had to continue for five intergovernmental agreements on taxation, budget, foreign economic activity, and coordination of defense and law enforcement agencies. Given that Tatarstan was the first to negotiate a bilateral treaty with Moscow, it can be assumed that the process for signing treaties with the other components of Russia will be significantly faster (with the probable exception of Chechnya).

¹¹ In all components of the transportation system—railroads, air travel, and roads—Moscow is the central hub. In some other areas of infrastructure, such as telecommunications, some areas of Russia have (with foreign investment) been able to upgrade their systems and reduce dependency on everything being routed through Moscow.

¹² See Interfax report of 19 July 1994, published in Foreign Broadcast Information Service, *Daily Report: Central Eurasia* (hereafter FBIS-SOV)-94-139, p. 32; and ITAR-TASS report of 3 August 1994, translated in FBIS-SOV-94-150, p. 26.

Relating to the issue of defending Bashkortostan's sovereignty and territorial integrity, it was agreed that its territory and status cannot be altered without Russia's consent.

sort of political force as well).¹³ In this and other¹⁴ cooperative efforts, it is not yet clear whether an interest in pursuing common interests will prevail, or whether the participants will find themselves in competition with one another. Elizabeth Teague has outlined the current status of these relations as follows: "At present every territorial unit is out for itself only, each competing with all the others in what is perceived as a zero-sum game. Tension between the republics and regions is fanned by the fact that the present federal system is not perceived as equitable by the majority of Russia's regions—the krais and oblasts."¹⁵ Furthermore, even assuming adequate interest and support for regional cooperation, there are physical constraints—such as the inadequacies of the transportation network and other elements of the infrastructure—that may prove extremely difficult to surmount. Also, as economic disparities between various republics, oblasts and krais grow, the tensions between them are likely to flare. On the other hand, if some regional cooperative groups succeed, they may find themselves in a stronger position to bargain with Moscow for greater local authority and autonomy.

Also tied in with the idea of pressuring, or leveraging, Moscow is the necessity of forming political parties at the local level. Because virtually all the nationally known politicians are based in Moscow and everything is seen to be run in Moscow, the general public feels alienated from the political process. Many people trust the current political leaders no more (and perhaps even less) than they did the Communist Party hierarchy. In short, popular apathy and cynicism are arguably the strongest forces in Russian politics today. From the reverse perspective, politicians in both the executive and legislative branches commonly lack a sense of identification with the general public and consequently do not consider their role to be one of representing their constituents' interests. This missing link has made many political elites fearful of new elections, as they realize voters will not feel any particular loyalty to them. The most effective solution for establishing firmer roots for democratic traditions would be to create national parties with local representation throughout the country, but to date this approach has been only marginally

¹³ Tatarstan's Vice President Likhachev has also raised the idea of creating a union of the Volga regions for not only economic, but also *political* purposes. See Boris Bronshteyn, "Tatarstan Vice President Gives Birth to Idea of Union of Volga Regions," *Izvestiya*, 22 September 1993, p. 2, translated in FBIS-SOV-93-186, p. 30.

¹⁴ There are currently eight interregional associations, which are seeking to play a brokering role between the federal government and local authorities; in July 1994, the Federation Council signed a protocol effectively granting them this role. These associations are: Siberian Accord, Central Russia, North-West, Black Earth zone, Socio-Economic Cooperation Association of North Caucasian Republics, Krais and Oblasts, Greater Volga, Urals Regional Association, and Far East Association.

¹⁵ Elizabeth Teague, "Russia: A Troubled Future," *RFE/RL Research Report*, 17 June 1994, p. 8.

successful. Vladimir Zhirinovsky's Liberal Democratic Party has arguably been the most successful, but in general differing (albeit not necessarily opposing) interests have pulled parties or coalitions of parties apart. For example, many of the groups supporting Russia's reform efforts (commonly labeled the "democratic forces") have ultimately focused on their differences rather than on common interests that might appeal to a wide range of voters.

In the final analysis, the evolution of center-regional relations in the Russian Federation depends on several important political factors. First and foremost, will the power-sharing arrangements Moscow has now begun to sign with local authorities in republics, oblasts and krais prove enforceable and workable? Will differences in the individual agreements preclude any cohesive opposition to Moscow, or will local officials (and publics) jointly rebel against perceived "unfair treatment"? The answer to these questions depends, in turn, on such considerations as: Will the executive-legislature relationship provide an environment in which laws can be established and actually implemented? For example, will changes be made to taxation and subsidy policies, and will collection and distribution, respectively, actually happen? While the constitution adopted in December 1993 does provide a general legal framework for the state to function, it will require cooperation between the executive and legislature to put the necessary implementation mechanisms in place. It will also require cooperation between the center and Russia's constituent components, largely encouraged by common economic interests since Moscow cannot rely on any central coercive power to enforce its demands. Working in favor of such cooperation is a willingness by local leaders to support some limited role for Moscow.

As for the Russian Federation's territorial integrity, even those areas that have been the most vocal over the last several years about more autonomy and even independence from Moscow have underscored that their primary desire is not for outright independence; what they seek is simply greater control over their own destinies. Similar to the young American colonies, Russia's republics, oblasts and krais are debating the costs and benefits of autonomy, testing their limits within the Federation, and trying to determine how much freedom they may be willing to sacrifice in order to participate in a larger, probably stronger union. Recourse to a complete separation from Moscow is infeasible for most areas, and is likely only in the extreme case of a political or economic catastrophe. It is our judgment that, despite the flaws in the current federation system, Moscow will be able to hold the country together as long as it continues its present course.

2. Economic Challenges

The Russian Federation faces formidable challenges in creating a viable economic system, with a small but serious risk of failure both in the near term and in the longer term. The risk of economic failure poses the greatest threat to the future of the Russian Federation. But even if economic catastrophe is avoided and the Federation holds together, economic forces will almost surely lead to a far more decentralized economic and political system in Russia than existed before, as is already becoming evident today. This section examines three economic challenges with which the Russian leadership must contend: avoiding the continuing risk of systemic economic failure, the creation of a viable system of public finance, and the creation of a viable system for international trade and investment.

a. Avoiding Systemic Economic Failure

The first pressing challenge facing the Federation is to avoid the continuing risk of systemic economic failure, which could plunge the Russian economy even deeper into depression. As bad as the Soviet economic system was—with a moribund industrial system that comprised outmoded physical plant and equipment, abused and depleted natural resources, malstructured industries organized into giant state monopolies, and no conceptual or practical basis for instituting modern management, financial, and accounting practices—this system has received a series of additional blows since the late 1980s that have triggered a deep economic depression. For example, the decline in world oil prices (coupled with the continued decline in Russia's own oil production) reduced the country's hard currency earnings. But more importantly, the state enterprise system began to implode once Mikhail Gorbachev began his program of *glasnost* and *perestroika*.¹⁶ His program undermined the traditional state mechanisms for coordinating and controlling industry, without providing effective replacement mechanisms. An additional blow to the economy came from the breakdown of inter-republic trade that occurred when the Soviet Union disintegrated. Not unlike the breakdown in international trade that contributed to the great depression of the 1930s, the breakup of the Soviet Union destroyed the highly

¹⁶ A detailed description of Gorbachev's convoluted, on-again, off-again reform efforts is provided in Marshall I. Goldman, *What Went Wrong with Perestroika* (New York: W. W. Norton and Co., 1992). Goldman also provides an analysis of why *perestroika* undermined the Soviet economy, indicating that *perestroika* undermined the central command and control coordination system without establishing a replacement market system.

integrated and specialized internal trading system that had grown up over the years.¹⁷ These factors have led, according to Russian statistics, to a 29 percent drop in gross domestic product in Russia in 1991-93, which equates to a greater fall than that of the United States in the early years of its great depression (1930-1933).¹⁸ With the very notable exception of significant expansion in the service sector, no region or industry has escaped this overall trend. Moreover, internal investment has plummeted, while foreign investment has remained at much lower levels than Russian officials had hoped and expected.¹⁹

Although there is considerable evidence that the worst may now be behind for the Russian economy,²⁰ the risk of systemic failure is still substantial. Among the challenges the Moscow leadership still must confront are: the runaway budget deficit (due to the failure to collect the anticipated level of taxes and continued subsidies to various ineffective, industrial monopolies²¹), the threat of large-scale unemployment (which Deputy Prime Minister in charge of privatization Anatoly Chubais has identified as the greatest problem the Russian economy will next have to face), and control over inflation. On the latter issue,

¹⁷ A macroeconomic analysis is provided in Axel Leijonhufvud, "The Nature of the Depression in the Former Soviet Union," *New Left Review*, Vol. 199, May-June 1993, pp. 120-126. Leijonhufvud observes (p. 121): "The manufacturing sector built up under central planning is characterized by a high degree of vertical industry integration and reliance on very large plants. Individually, these plants tend to be technologically inflexible and so is the entire system consisting of such plants. [This] gigantomania left a very vulnerable legacy: many large plants depend on a single, or at least a dominant supplier. . . . If one such gigantic plant ceases to operate others are left without suppliers or without customers. Such failures are now occurring on a large scale, and . . . constitute the most intractable part of the current crisis in the Former Soviet Union's economy."

Goldman (*What Went Wrong with Perestroika*, p. 154) notes that Soviet planners claimed that 77 percent of all products were produced by a single manufacturer in the machine building, metallurgical, chemical, timber, construction, and social sectors.

¹⁸ Interfax report of 10 January 1994, published in FBIS-SOV-94-007, pp. 36-37. This report also contains detailed information about the fall in production of various consumables, energy resources, raw materials, etc.

¹⁹ There are some signs that foreign investment is improving in 1994. According to a report aired on the *MacNeil Lehrer Newshour*, 22 September 1994, foreign investment this year has been quadruple that of 1993.

²⁰ There is, in fact, some debate among Western analysts about the current state and prospects for the Russian economy. For an optimistic view, see Anders Aslund, "Russia's Success Story," *Foreign Affairs*, September-October 1994, pp. 58-71. In contrast, A. Kennaway argues that it is unlikely the Russian economy has bottomed out and that it will improve in the near term. See *An Economy of Russia in June 1994* (Camberley, UK: Conflict Studies Research Centre, Sandhurst, June 1994).

²¹ On the subsidies to various enterprises, Moscow must walk a fine line since cuts that are too big could trigger another round of industrial collapse. In his travels to cities along the Volga in Summer 1994, President Yeltsin underscored that the government would no longer provide subsidies to factories just to keep them afloat. If necessary, they would have to go bankrupt. The problem is, however, that the heads of such enterprises, along with the majority of its work force, continues to believe that it is the government's responsibility to ensure their employment, and that ultimately Moscow will be forced to do so.

there are at least encouraging signs that today ruble inflation is under better control than in 1992-1993.

Another accomplishment—of vast historic significance—is the widespread privatization that has been accomplished in the last year. Privatization is a key prerequisite for modernizing the Russian economy. But, it is not a panacea, as many Western economists seem to believe. It will not in itself solve Russia's task of coordinating and restraining its monopoly production system, and it does not in itself create the basic institutions needed to establish property rights, enforce contract law, and intermediate financial transactions that are needed to modernize Russian industry. Furthermore, "privatization" has largely translated into the current work force buying their enterprise, keeping the old directors in control, continuing inefficient management procedures, etc.²² The Russians will still need to pursue fundamental economic reforms in order to modernize their industries and make their economy a competitor on world markets. Improving standards of living requires increasing productivity throughout the economy. Productivity depends on the investments made in physical plant and equipment, the education and training of the work force, natural resources, the quality of management, and a number of intangible factors, such as work ethic and culture.²³ Privatization is only a first, albeit important, step in the right direction.

Indeed, the dramatic changes associated with privatization pose some risks to the Federation. First, many of the privatized firms and their workers have been surviving on federal subsidies, which have often been forthcoming even after production has ceased. If privatization is accompanied by sharp reductions in these enterprise subsidies, this could bankrupt many newly formed enterprises, triggering another round of industrial collapse. In the longer term, surviving firms will create another kind of risk. As enterprises begin to modernize and improve productivity, they will inevitably need to redefine the social contract that has long existed between Russian workers and enterprises, resulting in unaccustomed layoffs, unemployment, and income inequality. These changes will create political tensions that will stress Russian society, and because the effects of these changes will differ across the Russian landscape, they will create stresses in the Federation as well.

²² For further discussion of the privatization issue, see, for example, Kennaway, *An Economy of Russia in June 1994*, pp. 10-12; and Lynn Nelson and Irina Kuzes, "Coordinating the Russian Privatization Program," *RFE/RL Research Report*, 20 May 1994, pp. 15-27.

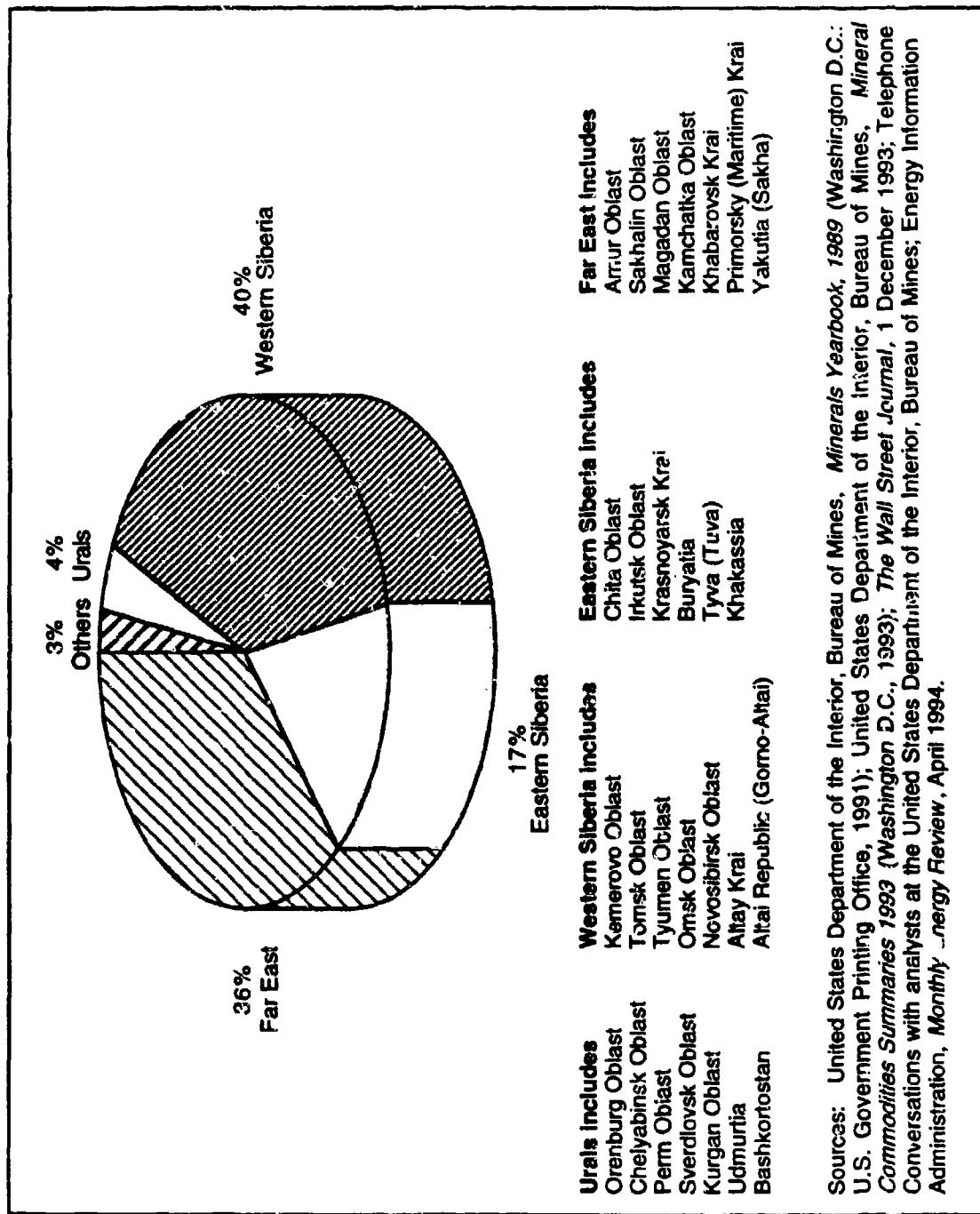
²³ For an excellent review of the challenges facing nations in improving their productivity growth, and of the economic profession's limited ability to provide answers to these challenges, see William J. Baumol, Sue Anne Batey Blackman, and Edward N. Wolff, *Productivity and American Leadership: The Long View* (Cambridge, MA: MIT Press, 1989).

Continued impediments to creating a fundamental economic framework within the Russian Federation government—where still no one knows who is responsible for anything or what is controlled at the center versus the local level—raise the possibility of further erosion of central economic control. As noted above, Russia must undergo many fundamental changes, including: industrial modernization, privatization (into the hands of the general public rather than the still-prevailing old *nomenklatura*), and a shift from trading and selling goods to actual production of new goods. The risk to the Federation as it is currently functioning is that, at some point, local regional leaders can be expected to step in and attempt to set their own houses in order. The key question is whether the Federation government will allow such local initiative, or whether it will repress it, as it has in the past. If the latter is the case, the Russian economy may well continue to stagnate. As long as these monopolies survive and can succeed in suppressing competition, the likelihood of significant economic advance is quite small. Another possibility is that the Russian economy could evolve into scores of fiefdoms run by local political and business elites, assisted by local strongmen (organized crime).

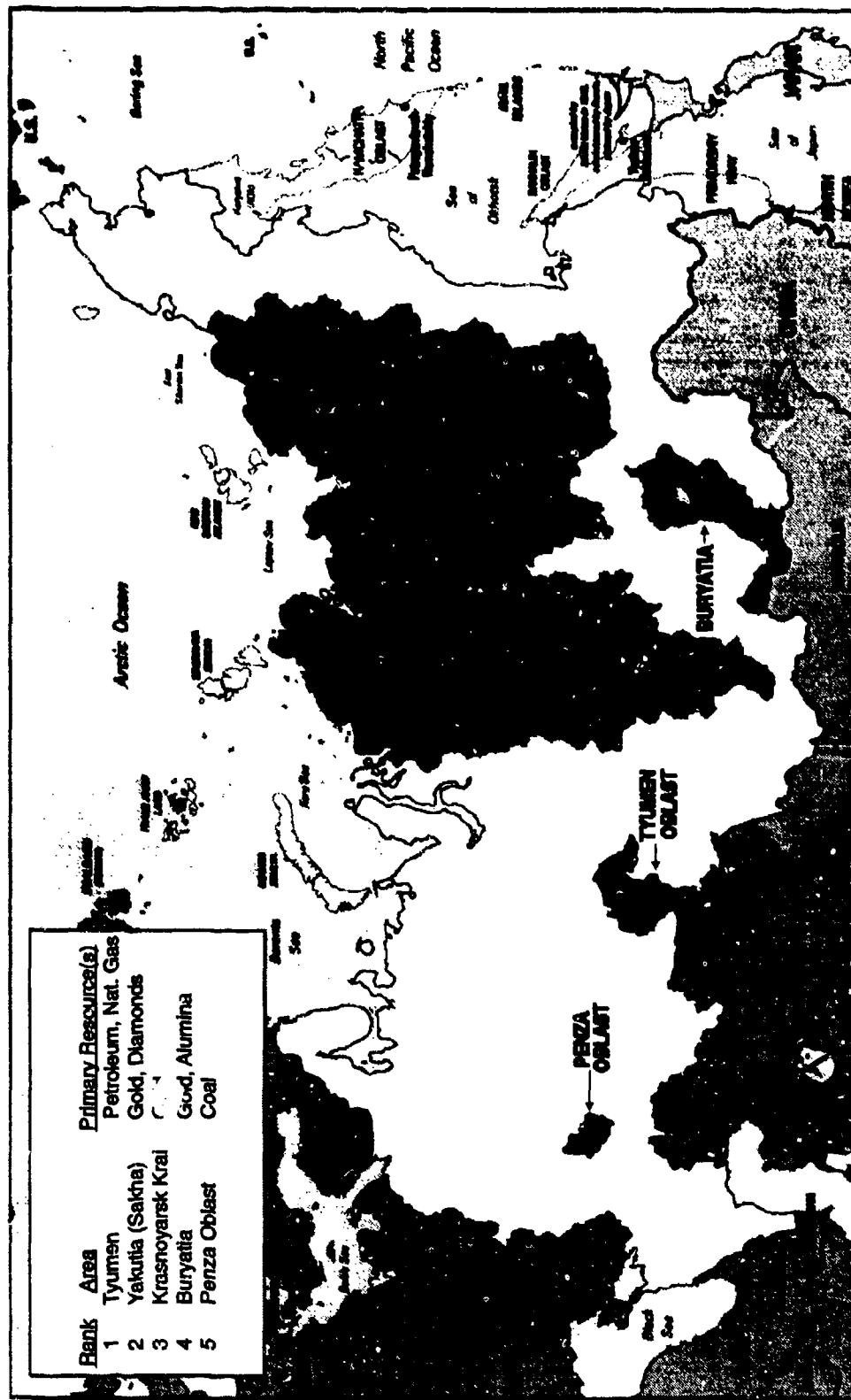
b. Creating a Viable Public Finance System

The Russian Federation must create a viable system of public finance, while at the same time heading off a tax revolt triggered by an unwillingness of certain areas of Russia and individual enterprises to subsidize the federal government. This unwillingness developed largely because of the historical pattern of exploitation of Russia's natural resources to encourage the development of heavy industry. As a result, the resource-rich areas have been forced to subsidize the industrial areas.²⁴ As Figure 2 illustrates, an analysis of existing minerals and energy resources valued at world prices shows that the Far East and Western Siberia account for 76 percent of these Russian natural resources; when Eastern Siberia is included, the total reaches 93 percent. Figure 3 points out the location within Russia of the five areas richest in natural resources. Clearly, in light of the poor state and quality of Russian industry, Asian Russia possesses much of the Russian

²⁴ In 1992, Russia continued to hold domestic prices on natural gas to about one-sixth the world level. In effect, gas-producing regions faced a tax rate of 83 percent. See Charles E. McLure, Jr., "The Sharing of Taxes on Natural Resources and the Future of the Russian Federation," in Christine I. Wallich, ed., *Russia and the Challenge of Fiscal Federalism* (Washington, D.C.: The World Bank, 1994), pp. 181-217. McLure concludes that, as Russian resource prices rise to world levels, "[t]he division of resource rents among the many claimants, both governmental and nongovernmental, will pose a stringent test of the viability of democratic government in Russia and of the nature of Russian Federalism." (p. 213).



Sources: United States Department of the Interior, Bureau of Mines, *Minerals Yearbook, 1989* (Washington D.C.: U.S. Government Printing Office, 1991); United States Department of the Interior, Bureau of Mines, *Mineral Commodities Summaries 1993* (Washington D.C., 1993); *The Wall Street Journal*, 1 December 1993; Telephone Conversations with analysts at the United States Department of the Interior, Bureau of Mines; Energy Information Administration, *Monthly Energy Review*, April 1994.



Sources: United States Department of the Interior, Bureau of Mines, *Minerals Yearbook, 1989* (Washington D.C.: U.S. Government Printing Office, 1991); United States Department of the Interior, Bureau of Mines, *Mineral Commodity Summaries 1993* (Washington D.C., 1993); *The Wall Street Journal*, 1 December 1993; Telephone Conversations with analysts at the United States Department of the Interior, Bureau of Mines; Energy Information Administration, *Monthly Energy Review*, April 1994.

Figure 3. Russia's Five Richest Natural Resource Areas

Federation's wealth (and potential export earnings); its desire to have greater control over this wealth is quite understandable.²⁵ Another cause of imbalance in the Russian Federation is the disparate treatment of oblasts and krais versus republics relative to their tax burden and autonomy. The oblasts and krais are responsible for paying the bulk of taxes to the central government, but it is the republics that have greater powers, even under the new constitution (hence, the desire by some oblasts to declare themselves republics instead).

Under communist rule the extent of the cross-regional subsidies was never explicitly known, and there was little any single enterprise could do about such subsidies in any event. This is changing, however, as the financial relationships among the Federation government, the governmental units at the local level, and economic enterprises are evolving away from the command and control framework toward a public finance system based on explicit taxes and a Federation budget. Consequently, the extent of cross-regional subsidies is becoming more readily apparent. At the same time, the local governments and enterprises are sometimes gaining greater latitude in avoiding taxation—either unilaterally by simply refusing to pay taxes (e.g., Chechnya) or through a specific agreement with Moscow (e.g., Sakha and Bashkortostan).²⁶ The result is a bankrupt Federation system of public finance.

Overall, this imbalance in tax burdens (between resource-rich and industrial areas, and between oblasts and republics) represents an important, long-term problem for the Russian government. Moreover, it is likely to get worse when and if local economies begin to improve. Even before such improvement, in 1993, only 5 of the 89 components of the Russian Federation paid more taxes to Moscow than they would ordinarily get back from Moscow. Additionally, federal budget non-payments constituted 64.7 percent of total budget non-payments in the first-quarter of 1994, highlighting the increased priority given to territorial budgets.²⁷ This suggests a scenario in which some of the more prosperous parts of Russia attempt to opt out of the Federation system in order to avoid the heavy tax burden. It seems certain that in any event the federal role will need to be reduced; rather

²⁵ It should be noted, nevertheless, that the Soviet system of exploiting natural resources has been very detrimental; even where resources are abundant there is some question about the cost effectiveness and/or ability to continue to tap resources that either have been seriously damaged or are difficult to extract.

²⁶ Some of these agreements were obtained as Yeltsin was trying to work with local officials to approve the new Federation Treaty, signed in March 1992, and local officials recognized that they possessed a certain amount of leverage.

²⁷ This is an increase even compared with late-1993 data, when the figure was 58.1 percent. Reported by Oleg Deyneko on ITAR-TASS, 6 May 1994, translated in FBIS-SOV-94-089, p. 26.

than offering countless subsidies, the central government will need to determine what are the nation's highest priorities (such as infrastructure, defense) that must be addressed at the *national* level, and what should be left to *local* governments to address. This is precisely one of the issues Moscow has focused on in its bilateral agreements with Tatarstan and Bashkortostan, for example.

It appears that the Russian government is destined to play a declining role in the Federation's economics and politics; the question is how quickly and to what extent will it decline. It could decline gradually, as the government accommodates to the new fiscal realities, or there could be a cataclysmic failure of the Federation system of public finance or an outright tax revolt (which would likely have a fault line separating the resource-rich areas from the Russian industrial heartland). The key indicators in this realm are the bilateral agreements negotiated with the center, the actual pace of tax collections, and trends in the federal budget and budget deficit. In order to retain some role for itself in the face of such changes, the Russian government would have two main forms of pressure: economic and military. Economic pressure, including economic boycotts and embargoes, can still be highly effective since the inherited Russian economy is highly integrated and monopolistic.²⁸ How the military might play in a tax revolt remains a wild card. But given the increasing dependence of the Russian military on local authorities (discussed below), Russian troops would almost certainly resist raising arms against any regional revolt of this nature. Ironically, it is the Federation's tenuous grip on the economy that continues to give it the clout needed to keep the regions in the fold. How long this can continue remains to be seen.

c. Creating a Viable Foreign Trade System

Another set of economic challenges revolves around the need to create a viable trading and investment system with the international community. The old Soviet state planning system built an economy to suit an ideology, not economic markets. As a result, the economic system was nearly autarkic with an industrial structure based on *gigantomania* and state monopoly. Thus far, the lack of well-defined property rights, contract law, and trading institutions has sharply restricted the expansion in foreign trade and investment that is sorely needed to modernize Russian industry. But as trade does begin to grow, it will also create new tensions in the Russian Federation; given the freedom to realign trading

²⁸ Moscow has already proved its willingness to use the threat of economic sanctions in the case of Tatarstan, when it threatened to shut off the latter's access to the pipelines (effectively prohibiting either the import or export of oil). This threat compelled Tatarstan to sign the bilateral agreement with Moscow in February 1994, as discussed above.

patterns, regions in the East (notably the Far East and parts of Siberia) or on the Western periphery (such as St. Petersburg and Karelia) may in time discover far greater economic affinity, and better economic prospects, with neighboring nations than with their partners within Russia. Indeed, already the Far East's top three trading partners since 1992 have been China, Japan, and South Korea.²⁹

How the Federation manages these relationships will help shape the evolution of the Russian economy. Clearly, the resource-rich areas have a distinct advantage in attracting foreign investment, but even in such cases, foreign investors face many uncertainties that can quickly dissipate their interest: from uncertainties about who actually controls what (and who has the authority to approve deals) to the continuing inability to know what things actually cost (and what they will cost 6 months from now). In short, many potential investors believe the current economic climate is simply too unsettled to warrant major investments.³⁰

From the standpoint of cold economic logic, it would make good sense for several segments of Russia to break away from the Federation economy and instead participate in a regional trading area, either amongst themselves or in conjunction with other countries as well. Such trade partnerships already exist both on formal terms, as with the Kaliningrad Oblast-Poland cooperation agreement, and on a more ad hoc basis, as with the heavy border trade between the Primorsky Krai and China.³¹ The long-run potential to trade with the Pacific rim nations, such as Japan and Korea, is clearly high, especially for resource-rich areas east of the Ural mountains. However, this will require overcoming long-standing political and cultural differences among these nations. The current reality is that the international sector of the Russian economy is languishing behind needed and expected objectives, and until such time as at least some of the fundamental concerns of

²⁹ According to the Japan-Russia Economic Committee's report "Russia Far East Trade-Economic Relations," for 1992, the figures for combined imports and exports were: China, \$975 million; Japan, \$885 million; and South Korea, \$236 million. See also, Applegate, *Siberia and the Russian Far East*, p. 3.

³⁰ One expert on Russian-Japanese trade relations, a coauthor of a Japanese sponsored "Pre-Investment Study for the Establishment of a Free Economic Zone in Primorsky Region," told the authors that foreign investment in the Russian east is focused mainly on quickly exploitable resources and tourism (primarily restaurants and hotels) and that most projects are under \$25 million. He believes that dramatic improvements in the investment climate will be needed before the Japanese begin to make sizable investments. Interview with Seth Sulkin, January 1994.

³¹ N. Borovskaya, "Poles Will Lose the Russian Market if They Engage in Trade Only," *Kaliningradskaya pravda*, 7 July 1994, p. 1, translated in FBIS-SOV-94-135, pp. 18-19, and "Russia's Wild East Boom Town: Vladivostok Displays a Rough-and-Ready Style," *Washington Post*, 26 May 1994, p. 1.

potential foreign investors can be addressed, the reluctance to invest in sizable amounts will continue.

3. Military and Security Factors

In the wake of the disintegration of centralized structures—especially economic ones—throughout Russia, one structure that has maintained at least some semblance of unity is the Russian armed forces. Many analysts are therefore wondering whether the Russian military will be the force to hold the Russian Federation together as a nation. The short answer is: probably not. While there are some considerations in favor of this argument, there are increasingly more against it. In short, the Moscow leadership should not count on the Russian military to enforce order in break-away areas.

The essential argument in favor of the military acting as a unifying force is that the officers believe it is their duty to be loyal to the nation they are serving. There is also certainly a greater sense of national pride among military officers than among the population at large, as well as a deep-seated frustration with the decline in Russia's international prestige. It is also possible, and quite likely, that as separatist tendencies might grow in Russia, those nationalist forces that are determined to hold the country together would be more likely to opt for service in the military. (The role of illegal military formations also cannot be ignored in such a case.) From the standpoint of different Russian regions, even the more independently minded Far East is likely to want to retain some form of unified military force, namely because its population is so sparse that it realizes it could never provide effectively for its own defense without some additional security guarantees (including a nuclear umbrella). But while this latter point suggests a widespread interest in common security arrangements, it does not mean that the military will act as a unifying force to keep the Federation intact.

Much like Russian society in general, the Russian military is, in fact, experiencing numerous difficulties, many of which could contribute to its own disintegration. It is no surprise that morale in the service continues to plummet: The combination of draft dodging and legal exemptions means that only 16 percent of the conscriptable pool is currently being drafted. Many officers remain without housing (a problem likely to worsen in the face of continued troop withdrawals). Pay has sometimes been delayed for months at a time, especially in the more remote areas. And with an officer-to-conscript ratio of roughly one-to-one, officers are increasingly performing duties normally assigned to conscripts, such as guard duty, cleaning, and basic maintenance tasks. As a result, many of the brightest young officers see better opportunities in the emerging business world and are opting to

leave military service; between 1990 and 1993, 95,000 officers aged 30 or younger left the military.³² Furthermore, budgetary constraints are impeding the military's ability to maintain appropriate levels of training and combat readiness.

In addition to demoralization and declining readiness, another important factor affecting the Russian military's ability to act as a cohesive force is its changing relationship with local authorities in the republics, oblasts and krais where they are stationed. Just as the breakdown in the centralized system has fundamentally altered economic relations between Moscow and the rest of Russia, so too has this breakdown affected the armed forces. Military units are increasingly dependent on local authorities for housing, food, and other daily necessities; vouchers for paying salaries, issued by Moscow, must be translated into cash at local banks. If anything, these dependencies will increase in the future, especially if declining military budgets continue to be the norm.

The military's relations with local authorities is also affected by structural changes being implemented in the military districts. The new regional command structure aims to unify air, naval, and ground forces, as well as border troops and some paramilitary security forces in order to enhance cost effectiveness and operational capability. As Mark Galeotti points out, the military's new command structure is designed to work more closely with local officials, thereby increasing the former's dependency on the latter.³³

Returning to the question of the military acting to preserve the Russian Federation, serious doubts must be raised about the willingness of a locally based military unit to put down separatist movements, should it be so directed from Moscow. Not only might local commanders find it difficult to take action against authorities who had fed and housed their troops, but under current Russian conscription patterns, draftees are allowed to serve much closer to home than was the case under the Soviet system. This then raises additional uncertainties about a soldier's willingness to use force possibly against friends or even family. Moreover, Russian officers in general have a deep-seated fear of civil war (recalling the suffering they have experienced since 1914) and an aversion to being dragged into activities that the police should handle. The military's unpopular involvement in quelling unrest in various "hot spots" of the Soviet Union over the last decade only reinforces this reluctance to operate domestically. Military officers recognize only too well that blurring the line between police and military operations runs the risk of further eroding

³² Col. Anatoly Belousov, "Junior Officers Need the Help of Seniors More Than Ever," *Krasnaya zvezda*, 10 June 1994, p. 1.

³³ Mark Galeotti, *Jane's Intelligence Review*, June 1993, p. 242.

morale and of their institution becoming increasingly politicized, developments most of them strongly wish to avoid.

Should Moscow feel compelled to use military force within the country, it would have to rely on select, elite units to carry out its bidding. Yet there will be only pockets of such loyal forces from which to draw. The backbone of these forces will be the mobile forces now being created, and these are in turn drawing heavily on the airborne troops for personnel and training methods.³⁴ The most mobile forces are to be stationed in the North Caucasus Military District, the area of the greatest instability in Russia, while a larger group of reinforcements will be deployed in the heart of Russia: the Ural and Volga Military Districts. Eventually, all these mobile forces combined may total 150,000 or 200,000 troops, but such plans and capabilities lie in the future; for now, the number of reliable forces is extremely small. The creation of these forces, together with the new Russian military doctrine's espousal of a role for the armed forces in quelling domestic unrest should other security personnel (namely, police and internal troops) be unable to do so alone, is evidence that the Moscow political leadership recognizes it may need to resort to force and is planning for such a contingency. All indications are that Moscow will ensure that some small group of forces is loyal and reliable enough to carry out these orders; the uncertainty is how large a force might be necessary to do this, how soon (hence, whether these forces will exist), and whether more than one contingency may arise simultaneously.

While the Russian military as a whole is not likely to actively hold Russia's republics, oblasts and krais in line, larger security concerns—namely, external threats—do offer a reason for the Federation's cohesion. Thus, to the extent that Russia's various constituent components share concerns about threats from outside the Russian Federation, there will be interest in maintaining some form of unified military force to counter these threats. As already noted, sparsely populated areas such as Siberia and the Far East do not have the manpower to create a viable, independent military force. To counter potential threats from China, Japan, or Korea, for example, the obvious security guarantee is a nuclear umbrella. While all nuclear submarines are likely to be moved out of the Pacific Fleet (and concentrated solely in the Northern Fleet), the military districts in this area do have silo-based intercontinental ballistic missiles (ICBMs) and will probably continue to have some of the mobile single-warhead ICBMs deployed there as well.

³⁴ There have also been reports that President Yeltsin has been stationing some airborne troops in the Moscow area that he could rely on in the event of a crisis.

Similarly, the various components of the North Caucasus—plagued by instability and confrontations among themselves—feel threatened by neighboring countries that are also unstable. Should the Moscow leadership choose to send in troops, the country's most mobile (and some of its most reliable) forces would be nearby and poised, at least theoretically, to take action. It is also worth noting that the North Caucasus region is home to some of the more active paramilitary formations, as well as emerging Cossack forces. In short, this is the region most likely to be embroiled in some form of military combat in the foreseeable future.

C. PROSPECTS FOR THE RUSSIAN FEDERATION

In the most general of categories, the future of the Russian Federation can be broken down into three scenarios:

- The continuation (to a greater or lesser degree) of current policies, with the Federation maintaining territorial integrity and the center working out ad hoc arrangements with its various constituent components.
- The emergence of a nationalistic, authoritarian regime which would seek to recentralize virtually all power back in the hands of Moscow and would likely reassert Russian domination over some portions of the former Soviet Union that are now independent states.³⁵
- The failure of Moscow to establish an effective balance of power with the rest of Russia, thereby leading to a much looser, confederal relationship and perhaps even the disintegration of the state into several new ones.

In considering these prospects, it is important to note that the trend toward decentralization is already evident: overall, despite occasional reassessments of power, Moscow's control and authority over the country's 89 component parts is decreasing, while local demands for more control over their own resources and finances are on the rise. Also, while an authoritarian option is certainly viable, the likelihood is very strong that an authoritarian regime will be unable to cope with Russia's economic problems, resulting in systemic economic failure. In the wake of such failure, the probability of the Russian Federation's disintegration again becomes quite real.

³⁵ The most obvious areas that an authoritarian Russia would strive to subsume are: Belarus, the eastern part of Ukraine and the Crimea, northern Kazakhstan, and the Dniester region of Moldova.

The most desirable outcome—from the standpoint of stability and general Western interests—is probably that of a looser confederation on the territory of what is currently the Russian Federation. Moscow and the local governments manage to reach an agreement on more effective and empowered local government, while some links with Moscow are still welcomed (i.e., they are not opting for alienation from Moscow). In light of Russian domestic developments since early 1994, we believe this scenario is the most likely for the foreseeable future.

In the event of a less benign alternative—specifically, one of outright disintegration—the underlying causes would most likely stem from the failure of the Federation to cope with one or more of the economic challenges outlined above; ethnic tensions could add more fuel to the fire. It is already possible to identify potential fragmentation lines, most notably: the North Caucasus (where economic difficulties, coupled with ethnic tensions, can lead to increased instability and armed conflicts); the Far East and Siberia, extending perhaps as far west as the Urals and creating a vertical divide (where the availability of natural resources and the sense of alienation from Moscow can combine to forge a stronger desire for outright independence than currently exists); and a horizontal divide, along the 55th parallel (at least in European Russia), effectively splitting Northern European Russia (including Moscow and St. Petersburg) from the Southern European Russia with the latter's economy relying on rusting industry and inefficient agriculture. In this case, the Far East and Siberia may opt to form a separate state, or may seek some type of arrangement with the Northern European section. These are not, of course, the only possible forms of fragmentation; there are 89 components of the Russian Federation, and any one could theoretically choose to divorce itself from all or most of the rest of the country, as Chechnya has sought to do since 1991. These examples serve merely to illustrate some of the more fragmentary trends already in evidence. The economic and political difficulties of dealing with several new states, the implications of such disintegration for military structures (including nuclear weapons), and the probability of some form(s) of military conflict suggest that such a scenario would not be in Western interests.

D. IMPLICATIONS FOR THE WEST

What are the implications of Russia's future for the Western community? We share in the consensus among Western observers that the survival of the Russian Federation in its present configuration is in the best interests of the West. What limited influence we have over events in Russia should be exerted in that direction, supporting the evolution of

effective working relations between and among all the country's components. Generally, the implications of a failure of this policy fit into two categories: military-security ones and economic ones. Each type is discussed below.

1. Military-Security Implications

Among military-security concerns affecting Western interests, the preeminent worry is uncertainty about the control of nuclear weapons and materiel, and the possible proliferation of nuclear and other arms. Such concerns pertain not only to Russia, but also to Ukraine, Belarus, and Kazakhstan—the other three states that currently possess nuclear weapons. While these governments are making efforts to put control regimes into place, the potential for individuals trying to smuggle technology, nuclear materiel and weaponry abroad remains problematic, as evidenced several times already in 1994. Moreover, should Russia undergo some degree of disintegration, certain land-based nuclear forces may have to be redeployed (if the break-away area has such forces on its territory), assuming they remain under Moscow's control.

Other military concerns pale in comparison to the nuclear threat, but can still have some effect on Western security interests. For example, the continuation of the kinds of regional conflicts that are already evident in various states of the former Soviet Union (FSU), including within Russia itself, will create only minimal Western interest so long as these conflicts remain essentially within the same borders (that is, within the borders of the FSU). The exception, however, may be an escalation of tensions between Ukraine and Russia, as witnessed by the ongoing disputes over the future of the Black Sea Fleet and the Crimea. If, indeed, these two countries actually reached the point of armed conflict, the pressure for some form of international action would be greater than for any other imaginable scenario within the FSU. Furthermore, if any conflict were to expand to a regional level, involving external players (i.e., non-former Soviet Union countries) and raising concerns about spill-over into neighboring countries, the United States and international community would certainly be pressured to become involved in mediation efforts. To date, however, international institutions appear to be distinctly reluctant to become involved in such disputes.³⁶

³⁶ Elements of the Conference on Security and Cooperation in Europe (CSCE) have been an exception to this rule. For example, the CSCE Minsk Group has sought to mediate the Nagorno-Karabakh dispute and, more generally, the CSCE High Commissioner on National Minorities has been quite active throughout the FSU.

Finally, it cannot be excluded that what might be called renegade militaries will emerge in Russia (and elsewhere in the FSU). While the Russian military will certainly continue to exist, other paramilitary organizations, many of which are connected with organized crime activities, have already begun to emerge, notably in the North Caucasus. The lessons of history are also important to recall in this context. In the case of Weimar Germany, its disaffected World War I veterans believed the nation had let them down—they were humiliated by Germany's military defeat and were angry about the country's reduced power status and the decline in the military's prestige; they subsequently formed the root of a significant paramilitary movement out of which German fascism sprang. The parallels to the current Russian military—forced to withdraw from Central Europe and parts of the FSU, demoralized and disillusioned—are striking. Should such groups (either outside the official military structure or within it) grow even stronger, their ability to foster unrest could pose a serious threat to Russian stability and would, at a minimum, affect Western business interests in the region.

2. Economic Implications

Changes internal to Russia also raise some economic concerns in the West, but these are far down the scale compared with our military concerns. One possible result of changes within Russia is the disruption of supplies of natural resources such as oil, gas, timber, diamonds, and gold. While such disruptions might affect Western European and Asian countries more than the United States (especially in oil and gas supplies), the fact that U.S. firms are increasingly involved in business ventures in Russia poses some risk to U.S. economic interests. Undoubtedly, the Russians are themselves the main losers in economic terms from the risks of political instability. Investors will continue to stand on the sidelines until the Russian investment environment improves, limiting the inflow of capital and technology needed to modernize the Russian economy.

Of more direct and widespread pertinence to U.S. economic interests in the long run is the possible emergence of an Asian trading center involving China, Korea, and perhaps even Japan in Russia's Far Eastern and Siberian regions. These countries might join to form their own trading area and seek to exclude the participation of others.³⁷ Alternatively, if Moscow's presence in the region diminishes further, these countries may

³⁷ Japan remains an unlikely major investor—at least for the foreseeable future—because Russia and Japan are still disputing control over the Kuril Islands (Northern Territories). For a brief history of this dispute, see Susan L. Clark, "Japan: Gorbachev's Partner in a Reluctant Détente," in Clark, ed., *Gorbachev's Agenda: Changes in Soviet Domestic and Foreign Policy* (Boulder, CO: Westview Press, 1989), pp. 355–380.

become competitors for commerce and political influence in the region. Hence, the Far East could become a new source of friction in the Pacific.

Finally, the questionable safety of Russian civilian nuclear power plants poses both economic and security concerns for the international community. The threat of another Chernobyl-type accident becomes all the greater as Russia's economic constraints impede its ability to maintain appropriate safety levels. Moreover, given the problems in exploiting oil and natural gas resources (both because of geographical conditions and because of the inefficient ways these fields have been developed to date), and given that the regions in Russia without such resources will find it difficult to pay world prices for them, the Russian government already recognizes that its dependency on nuclear power will increase in the coming years.

3. Conclusions

Our review of political, economic, and military factors indicates that the outlook for the Russian Federation is one of continuing instability and give and take both between the executive and the legislature and between Moscow and the rest of the country as they try to effect a more equitable and appropriate center-regional balance of power. Current trends point to a peaceful evolution in these relationships. Nevertheless, Russia has already demonstrated in the last several years how quickly the political situation can change. The United States has important concerns about developments within the Russian Federation—from control over nuclear materiel and nuclear power plants to potential chaos in some segment of the country—but only limited potential to influence events there.

While our potential for influence may be limited, the Western community must adapt to the ongoing process of change within Russia and be prepared for the emergence of more radical alternative futures. Regardless of how the Russian Federation evolves, we cannot afford to focus all of our attention on Moscow and on President Yeltsin. A policy of close association with only Yeltsin and his closest associates is detrimental to both sides: he has had to counter the image of supplicant before the Western community, while we have restricted our room for maneuver by investing so heavily in only one man. What is needed instead is a policy of "flexible engagement" that recognizes and builds on ties with other power centers across the Russian Federation as well. While the U.S. and other Western governments must understandably be cautious in pursuing such a policy, for it cannot be done at the expense of undermining Moscow's federal authority, these governments can encourage non-governmental agencies and businesses to foster regional development on the political and economic level. An important element of this policy is

also to begin observing events in Russia from the perspective of the Pacific nations in order to better understand how the Russian Far East and Siberia may develop. Various Western countries have made significant progress in expanding their contacts, but their efforts must be broadened throughout the country and across the political spectrum, for without such efforts we may find ourselves in much the same situation as when Gorbachev and the Soviet Union disappeared. This policy of "flexible engagement" will put the West in the best possible position to cope with the still volatile political, economic, and military factors shaping the future of the Russian Federation.

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A combination of political, economic, and military-security factors will help determine the territorial configuration and political orientation of the Russian Federation. This paper examines these three sets of factors, and suggests that Russia could evolve in one of at least several ways: an authoritarian, recentralized country; disintegration into several new states; or continued accommodation with regional interests, allowing a relatively controlled devolution of power from Moscow. The way in which Russia evolves will have important military-security and economic implications for the United States and the West more generally. One important way to better prepare ourselves for any future Russian developments is to expand our contacts across the political spectrum and throughout the country.			
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